



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LETCHER COUNTY
SHERIFF'S SETTLEMENT - 1996 TAXES**

October 16, 1997

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Carroll A. Smith, Letcher County Judge/Executive

Honorable Stephen Banks, Letcher County Sheriff

Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the Letcher County Sheriff's Settlement - 1996 Taxes as of October 16, 1997. This tax settlement is the responsibility of the Letcher County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Letcher County Sheriff's taxes charged, credited, and paid as of October 16, 1997, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

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Honorable Carroll A. Smith, Letcher County Judge/Executive

Honorable Stephen Banks, Letcher County Sheriff

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Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following areas of noncompliance.

- The Sheriff Should Have Required Depository Institutions To Provide Additional Securities Of \$1,303,353 As Collateral And Entered Into A Written Agreement To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated March 16, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
March 16, 2000

LETCHER COUNTY
STEPHEN BANKS, SHERIFF
SHERIFF'S SETTLEMENT - 1996 TAXES

October 16, 1997

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 364,358	\$ 388,250	\$ 1,520,149	\$ 486,806
Tangible Personal Property	123,375	113,434	417,166	366,913
Intangible Personal Property				81,075
Fire Protection	3,958			
Franchise Corporation	59,738	56,291	220,771	
Additional Billings	574	586	2,093	745
Increased Through Erroneous Assessments	706	722	2,614	1,028
Penalties	7,960	8,096	30,543	21,662
Adjusted to Sheriff's Receipt	(206)	(30)	(282)	(165)
Gross Chargeable to Sheriff	<u>\$ 560,463</u>	<u>\$ 567,349</u>	<u>\$ 2,193,054</u>	<u>\$ 958,064</u>
<u>Credits</u>				
Discounts	\$ 5,718	\$ 5,827	\$ 22,696	\$ 10,207
Exonerations	8,431	8,848	35,882	18,912
Delinquents:				
Real Estate	39,499	41,828	163,625	52,446
Tangible Personal Property	4,975	4,574	16,820	13,078
Intangible Personal Property				506
Total Credits	<u>\$ 58,623</u>	<u>\$ 61,077</u>	<u>\$ 239,023</u>	<u>\$ 95,149</u>
Net Tax Yield	\$ 501,840	\$ 506,272	\$ 1,954,031	\$ 862,915
Less: Commissions (a)	<u>21,616</u>	<u>21,516</u>	<u>63,218</u>	<u>36,961</u>
Net Taxes Due	\$ 480,224	\$ 484,756	\$ 1,890,813	\$ 825,954
Taxes Paid	479,358	483,760	1,890,202	818,005
Credit For Commissions Per KRS 134.290				8,670
Refunds (Current and Prior Year)	<u>403</u>	<u>416</u>	<u>1,699</u>	<u>517</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 463</u>	<u>\$ (b) 580</u>	<u>\$ (c) (1,088)</u>	<u>\$ (1,238)</u>

(a), (b), and (c) See Page 4

LETCHER COUNTY
 STEPHEN BANKS, SHERIFF
 SHERIFF'S SETTLEMENT - 1996 TAXES
 October 16, 1997
 (Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	1,861,027
4% on	\$	356,227
3.065% on	\$	1,597,804

(b) Special Taxing Districts:

Library District	\$	239
Health District		161
Extension District		170
Soil Conservation District		10
		<hr/>

Total Due Districts	\$	580
		<hr/>

(c) School Taxing Districts:

Common School District	\$	49,010
Independent School District		(50,081)
		<hr/>

Due Districts or (Refund Due Sheriff)	\$	(1,071)
		<hr/>

The accompanying notes are an integral part of the financial statement.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

October 16, 1997

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. As of January 31, 1997, the uncollateralized amount on deposit was \$1,303,353. The pledged securities and FDIC insurance did not equal or exceed the amount on deposit. In addition, the Sheriff did not have a written agreement with the depository institution.

LETCHER COUNTY
 NOTES TO FINANCIAL STATEMENT
 October 16, 1997
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at January 31, 1997.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 619,393
Uncollateralized and uninsured	<u>1,303,353</u>
Total	<u>\$ 1,922,746</u>

Note 4. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1996. Property taxes were billed to finance governmental services for the year ended June 30, 1997. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 17, 1996 through September 2, 1997.

Note 5. Interest Income

The Letcher County Sheriff earned \$6,882 as interest income on 1996 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 6. Lawsuit

According to Letcher County Attorney, the case, James F. Tackett vs. Sheriff Steve Banks, involves a complaint for damages for unlawful arrest. The county is now vigorously defending the case. It is likely that any unfavorable court decision would have a negative financial impact on Letcher County.

COMMENT AND RECOMMENDATION

LETCHER COUNTY
STEPHEN BANKS, SHERIFF
COMMENT AND RECOMMENDATION

October 16, 1997

STATE LAWS AND REGULATIONS:

The Sheriff Should Have Required Depository Institutions To Provide Additional Securities Of \$1,303,353 As Collateral And Entered Into A Written Agreement To Protect Deposits

The Sheriff's deposits were not adequately secured by \$1,303,353, as of January 31, 1997. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide collateral for interest-bearing and noninterest-bearing deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. The Sheriff should require the depository institution to provide sufficient collateral to secure deposits at all times. We also recommend the Sheriff enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff Banks' Response:

Securities have been pledged to cover all deposits.

PRIOR YEAR:

The Sheriff Should Have Required The Depository Institute To Pledge Additional Securities Of \$2,402,258 As Collateral And Entered Into A Written Agreement To Protect Deposits

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Carroll A. Smith, Letcher County Judge/Executive
Honorable Stephen Banks, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Letcher County Sheriff's Settlement - 1996 Taxes as of October 16, 1997, and have issued our report thereon dated March 16, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Letcher County Sheriff's Settlement - 1996 Taxes as of October 16, 1997 is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Letcher County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Carroll A. Smith, Letcher County Judge/Executive
Honorable Stephen Banks, Letcher County Sheriff
Members of the Letcher County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 16, 2000

